



KEELEY
Funds

First Quarter 2020 Commentary

Small-Mid Cap Value Fund

The performance reflected herein is for the Class A shares without load.

"Without load" does not reflect the deduction of the maximum 4.50% sales fee (load), which reduces the performance quoted. Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current to most recent month-end performance data may be obtained at www.KeeleyFunds.com

This summary represents the views of the portfolio managers as of 3/31/2020. Those views may change, and the Fund disclaims any obligation to advise investors of such changes. For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities.

*The Fund's Inception date is August 15, 2007.

Risks: Smaller and medium-sized company stocks are more volatile and less liquid than larger, more established company securities.

Prior to investing, investors should carefully consider the Fund's investment objective, risks, charges and expenses as detailed in the prospectus and summary prospectus. To obtain a prospectus or a summary prospectus, call us at 800.533.5344 or visit www.keeleyfunds.com. The prospectus/summary prospectus should be read carefully before investing.

To Our Shareholders,

For the quarter ended March 31, 2020 the KEELEY Small-Mid Cap Value Fund's net asset value ("NAV") per Class A share decreased -40.56% versus a loss of -34.64% for the Russell 2500 Value Index.

Commentary

Not one, but two Black Swans!! Following strong stock market gains in 2019, the first quarter of 2020 presaged an event driven bear market brought on by the rapid spread of a lethal pandemic. Investors dumped stocks in a sharp global correction, reminiscent of the market crashes of 1987, 2001, and the great recession of 2008. Fueling investor panic was the rapid spread in the U.S. of the coronavirus (COVID-19) pandemic. President Trump declared a U.S. National Emergency and states led by California and New York, banned public gatherings ordering residents to stay at home except for essential services. The Black Swan arrived, though the impact was far larger than anyone could have imagined. The contagion forced a virtual shutdown of the U.S. economy, forcing closure of factories, schools, restaurants, sporting events, hotels, entertainment, and air travel. The impact has rippled broadly throughout the global economy, disrupting supply chains, shuttering thousands of businesses and leading to a surge in the number of people who are jobless.

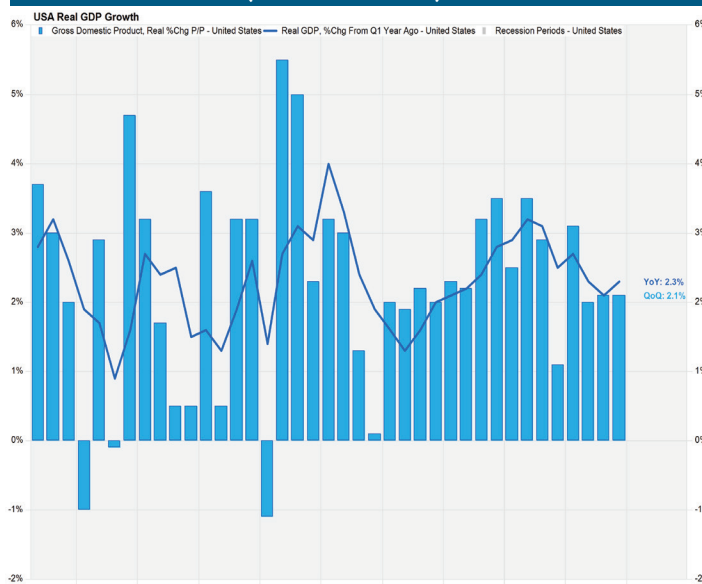
In addition, the disagreement between Saudi Arabia and Russia over oil production cuts given the glut in supply led the Saudis to ramp up production to take market share as a means of punishment for the Russians. The second Black Swan had arrived putting further pressure on an already weakened global economy through pain for the global oil supply chain (drillers, servicers, refiners, industrial equipment companies and the companies/banks that finance them).

Market Performance

As of March 31, 2020	3 Months	1-Year	3-Year
S&P 500 Index	-19.6%	-7.0%	5.1%
Russell 3000 Value Index	-27.3%	-18.0%	-2.7%
Russell 3000 Index	-20.9%	-9.1%	4.0%
Russell 2500 Value Index	-34.6%	-28.6%	-8.4%
Russell Midcap Value Index	-31.7%	-24.1%	-6.0%
Russell 2000 Index	-30.6%	-24.0%	-4.6%
Russell 2000 Value Index	-35.7%	-29.6%	-9.5%
Bloomberg Barclays Agg. Bond Index	3.1%	8.9%	4.8%

Source: eVestment.

USA Real GDP Growth (Q1 2010 - Q4 2019)



Source: U.S. Bureau of Economic Analysis, Factset.



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Though catastrophic, the economic fallout from this public health crisis should be transitory as evidenced by the recent peak of the epidemic in China and South Korea. Plus, the spat between the Saudis and Russia would be short-lived given the huge losses both countries incurred producing oil at these prices. We believe, the U.S. economy and financial markets will eventually rebound given the extraordinary liquidity measures undertaken by the U.S. Federal Reserve and global central banks, along with the fiscal stimulus appropriated by Congress. The powerful combination of monetary and fiscal accommodation should ensure access to bank lines and credit markets by companies requiring bridge financing, while increasing jobless benefits for unemployed workers. We expect a sharp contraction in U.S. GDP for the first half of 2020, along with commensurate profit declines for U.S. companies. Assuming a peak in the infection rate in the months ahead, the economy should post a recovery in the second half of 2020, discounted in advance by equity markets.

Given the indiscriminate sell off in equities, prices of so many excellent small and mid-cap stocks have been sold down to decade low valuations based on normalized earnings. We view this market dislocation as an opportunity to reposition the portfolio for longer-term gains, though we are cognizant that the most oversold, lower quality stocks usually have the biggest bounces when the Fed provides the backstop. We've selectively upgraded the portfolio toward higher quality companies, selling at discounts to our calculation of intrinsic value based on underlying asset values, cash flow, and normalized earnings. We will look to exit lower quality names, those whose business models will take much longer to repair, on strength during bounces.

Just as the virus-induced market decline is unprecedented, we view the current investment environment with restrained optimism given the compelling valuations for many small mid-cap companies. We expect to generate attractive risk adjusted returns over the next market recovery cycle and would expect merger and acquisition activity to pick up as the larger, better capitalized companies and/or private equity look to take advantage of these compelling valuations.

Portfolio Review

Our portfolios consist of companies undergoing some type of restructuring to accelerate earnings and cashflow. This typically leads us to more mature, cyclical companies looking to reinvent themselves as well as companies with more debt as the restructuring process involves an investment phase to effect change. Access to credit is key to enabling spin-offs, acquisitions and to fund the upfront costs to enact a longer-term cost savings program. The sudden stoppage of the economy led to concerns about a freeze in the credit markets, the lubricant of the economy, and thus the widespread sell-off ensued. During widespread selloffs, investors look to reduce risk and find a reason to sell. Any company with debt or reliant on debt to operate was sold off sharply despite most having already refinanced any near-term debt. Any company with exposure to travel, aerospace, energy, even driving as more people work from home were sold off with lack of buyer interest to support them given the uncertainty of how long the impact of COVID-19 would last. As such, negative stock selection was the primary factor in portfolio underperformance in the first quarter.

High leverage hurt Houghton Mifflin (HMHC, down 70%) in Consumer Discretionary as well as Spectrum Brands (SPB, down 43%) and Primo Water (PRMW, down 33%) in Consumer Staples. Concerns over access to credit for growth hit Howard Hughes Corporation (HHC, down 60%) in Real Estate and for their end customers hit TriPointe Group (TPH, down 44%) and Wyndham Destinations (WYND, down 57%) in Consumer Discretionary. Exposure to travel impacted Playa Hotels (PLYA, down 79%) and Wyndham Hotels (WH, down 49%) in Consumer Discretionary, Ryman Hospitality Properties (RHP, down 58%) in Real Estate plus Air Lease (AL, down 53%) and AerCap (AER, down 63%) in Industrials. WEX, Inc. (WEX, down 50%), a technology company that processes payments for fuel and travel for trucking companies got hit on the decline in oil/gasoline prices. Even the "work from home" shift impacted Lamb Weston (LW, down 33%) in Consumer Staples on less people eating from food services (workplace/restaurants).



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Positive selection in Energy and Industrials (large positions in high quality Esco Technologies (ESE) and CoPart CPRT)) led to outperformance in those sectors.

We remain optimistic on equities as the massive global injection of liquidity has ended the bull market for fixed income. Earnings comparisons will be very easy for 2021 and normalized earnings should recover by 2021/22 given the strength of the US economy coming into this Black Swan event plus the pent-up demand from the consumer being quarantined. In nine of the last ten recessions, smaller cap has outperformed large and Value has outperformed Growth.

Let's Talk Stocks

The top three contributors in the quarter were:

TTEC Holdings, Inc. (TTEC - \$36.72 - NASDAQ) is one of the leading providers of customer care solutions in the world. It operates more than 100 call centers, electronic customer care centers and operating platforms in twenty countries. TTEC came into the disruption caused by the COVID-19 pandemic well-prepared to operate. With disruption in many industries, the ability to support customers at any time and in any form has never been more important and TTEC offers solutions to global customers. While we expect some disruption from stay-at-home orders in many parts of the world, we think that TTEC is probably better prepared for these challenges than most of its customers and many of its competitors, and seems likely to pick up some additional business going forward.

Invacare Corporation (IVC - \$7.43 - NYSE) is a leading provider of mobility and seating solutions (wheelchairs) and home medical equipment for non-acute care settings. The company has reported three solid quarters in a row increasing investor confidence in the company's ability to execute a massive turnaround. The company has ample liquidity to fund its operations and address the remaining debt due in early 2021. Although social distancing could slow fitment for new wheelchairs, the company is seeing outsized demand for its medical equipment and respiratory devices due to COVID-19. Management remains committed to hitting its \$85-105mm run-rate EBITDA target by 4Q20.

Chart Industries, Inc. (GTLS - \$28.98 - NASDAQ) is a manufacturer of critical components used in the downstream production of liquified natural gas (LNG) and other industrial gases and chemicals. The company completed its acquisition program which diversified its product portfolio, extended its geographic reach and is now focused on improving returns while paying down debt. Although large LNG projects make the headlines and drive the needle, there are many smaller projects that will contribute to growth. The ability to meet increasing power needs with lower carbon footprint is driving strong demand from new industrial facilities and emerging markets. GTLS also benefitted from being a new addition to the portfolio.

The three largest detractors in the quarter were:

Howard Hughes Corporation (HHC - \$50.52 - NYSE), is a leading master planned community developer with projects in Las Vegas, Houston, Honolulu, South Street Seaport in New York City and Columbia, Maryland. The company controls the development of commercial, residential and mixed-use real estate in these communities driving higher values for its land and higher net operating income at its commercial properties. Concerns about the company's ability to self-finance its growth via land sales due to the halt in the economy from the coronavirus led to its stock price weakness. In addition, the company surprised the Street with a \$600mm equity offering at the end of the quarter, led by lead shareholder Pershing Square and Chairman of the Board, Bill Ackman, to raise growth capital. HHC's properties are unique with tremendous long-term value.

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Playa Hotels & Resorts NV (PLYA - \$1.75 - NASDAQ) owns, operates and develops all-inclusive resorts in beachfront locations in Mexico and the Caribbean. The company was overcoming the impacts of safety issues with tourists in the Dominican Republic and Mexico, lower airline capacity to its regions due to the 737MAX grounding and finishing its two-year development program of new, branded properties when COVID-19 struck. The uncertain duration of the coronavirus and its effect on travel plans could impact the company's upcoming high season. Although the company has strong partners in Hyatt and Hilton, its leverage from the capital program and limited support being a non-US domiciled company bear watching.

Nexstar Media Group, Inc. (NXST - \$57.73 - NASDAQ), one of the largest television broadcasting companies in the US that recently closed acquisition of the Tribune assets, was caught in the market downdraft given its exposure to two factors of concern to investors - advertising exposure and leverage. Advertising is considered one of the fastest expenses that companies can cut, however, advertising (ex. political) makes up 40% of NXST's sales with most of its sales growth coming from retransmission fees. 70% of these fees were renegotiated in 2019 with the remaining 30% driving growth for 2020/21. Also, with the "stay in place" restrictions nationwide, TV advertising is likely to be cut less than other forms of advertising. Political ad spending had been stronger than expected thanks to Michael Bloomberg, but the bulk of the political spend occurs after Labor Day. Regarding leverage, the company closed the Tribune deal with lower than expected debt due to assets sales and refinanced its higher cost, near-term debt such that there are no payments due until 2023. With a fairly variable cost structure and cost savings from the Tribune integration, the company should still generate strong free cash flows.

Conclusion

In conclusion, thank you for your investment in the KEELEY Small-Mid Cap Value Fund. We will continue to work hard to earn your confidence and trust.



Small-Mid Cap Value Fund

The Fund's adviser has contractually agreed to waive a portion of its management fee or reimburse the Fund if total ordinary operating expenses during the current fiscal year as a percentage of the Fund's average net assets exceed 1.39% for Class A Shares and 1.14% for Class I Shares. The waiver excludes expenses related to taxes, interest charges, dividend expenses incurred on securities that a Fund sells short, litigation and other extraordinary expenses, brokerage commissions and other charges relating to the purchase and sale of portfolio securities. The waiver is in effect through February 28, 2021 and neither the Fund's adviser nor the Fund can discontinue the agreement prior to its expiration. **The expense ratios presented herein are for the Class A shares.

AVERAGE ANNUAL TOTAL RETURNS (as of 3/31/2020)

	KSMVX <u>No Load</u>	KSMVX <u>Load</u>	Russell 2500 Value
1 Year	-33.10%	-36.12%	-28.60%
5 Year	-4.91%	-5.78%	-2.15%
10 Year	4.73%	4.25%	5.65%
Since Inception**	3.06%	2.69%	3.85%
Expense Ratio (Gross)**		1.53%	
Waiver/Expense Reimbursement**		-0.13%	
Expense Ratio (Net)**		1.40%	

Stocks of smaller cap companies tend to be more volatile and less liquid than those of large cap companies.

Top Ten Holdings (Percent of Net Assets) March 31, 2020

Name	Weight (%)	Name	Weight (%)
Copart, Inc.	4.25%	NRG Energy, Inc.	2.41%
ESCO Technologies Inc.	4.21%	Nexstar Media Group, Inc. Class A	2.32%
KBR, Inc.	3.50%	Equitable Holdings, Inc.	2.17%
John Bean Technologies Corporation	2.60%	MDU Resources Group Inc	2.16%
American Water Works Company, Inc.	2.58%	Air Lease Corporation Class A	2.14%

Performance attribution is commonly used to measure the quality of the separate decisions that go into the management of an investment portfolio compared to a benchmark index. This analysis tries to isolate the effect and measure the return contribution of market allocation, which analyzes the positive/negative impact of a portfolio's allocation to groupings such as geographic regions or market sectors, and stock selection, which analyzes the positive/negative impact of the portfolio manager's security ownership and weighting decisions within a wider grouping. The performance attribution data in this quarterly commentary was prepared by Keeley-Teton Advisors, LLC ("Keeley Teton") using the following constraints: (1) Fund portfolio holdings are as of the beginning of each day; index constituents are as of the end of the day. That means that the Fund's holdings are not included until the day after acquisition (when it is included in the portfolio as of the beginning of the next business day), and a portfolio holding that is sold is included in the analysis through the end of the day on which it is sold, and that the values at which securities are included in the analysis are the values as of the beginning of the day. For the index, securities are included at their values at the end of the day. (2) The securities' values used in the analysis are the prices used by Keeley Teton in its internal records for the Fund and the prices used by the index provider for the benchmark index. If a price from either of those sources is unavailable, pricing information from FactSet is used. Pricing information from the index provider or from FactSet may differ from the pricing information used by Keeley Teton. (3) Sector and/or industry classifications may change over time. The attribution information provided in this commentary includes summaries of attribution by market sector. Attribution is not precise and should be considered to be an approximation of the relative contribution of each of the sectors considered. The information on performance by sector reflects the aggregated gross return of the Fund's securities. Contributions to the Fund's performance by sector (computed as described above) were compared against the contributions to the aggregate return of the stocks comprising the index, by sector, as reported by FactSet Databases. Holdings returns for this commentary are calculated as total returns, which reflect any dividends or income earned during the period. Prior to September 30, 2016, holdings returns were based upon price percentage change.



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Data provided for performance attribution are estimates based on unaudited portfolio results. Performance contributors and detractors were not realized gains or losses for the Fund during the quarter. Market performance presented solely for informational purposes. The S&P 500 Index is designed to act as a barometer for the overall U.S. stock market. The index is unmanaged, consisting of 500 stocks that are chosen on the basis of market size, liquidity, and industry grouping. The S&P 500 is a market value weighted index with each stock's weight in the index proportionate to its market value. The Russell 2000® Value Index is an unmanaged index that measures the performance of the small-cap value segment of the U.S. equity universe and includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000® Index is an unmanaged index that measures the performance of the smallest 2,000 companies by market capitalization of the Russell 3000® Index. The Russell 2500® Value Index is an unmanaged index that measures the performance of the small to mid-cap value segment of the U.S. equity universe and includes those Russell 2500 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2500® Index is an unmanaged index that measures the performance of the 2,500 smallest companies by market capitalization of the Russell 3000® Index. The Russell Midcap® Value Index is an unmanaged index that measures the performance of the mid-cap value segment of the U.S. equity universe and includes those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. The Russell Midcap® Index is an unmanaged index that measures the performance of the 800 smallest companies by market capitalization of the Russell 1000® Index. The Russell 1000® Index is an unmanaged index that measures the performance of the 1,000 largest companies by market capitalization of the Russell 3000® Index. The Russell 3000® Value Index is an unmanaged index that measures the performance of the broad value segment of the U.S. equity universe and includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 3000® Index is an unmanaged index that measures the performance of the 3,000 largest U.S. companies by market capitalization. The Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS. These Index figures do not reflect any deduction for fees, expenses or taxes, and are not available for direct investment. Securities in the Fund may not match those in the indexes and performance of the Fund will differ. The KEELEY Small-Mid Cap Value Fund, KEELEY Small Cap Dividend Value Fund and KEELEY Mid Cap Dividend Value Fund are distributed by G.distributors, LLC.

KEELEY Funds

Direct Shareholders: 800-422-2274
Investment Professionals: 800-422-2274
National Accounts: 800-533-5344
info@keeleyfunds.com

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